



MEMORANDUM

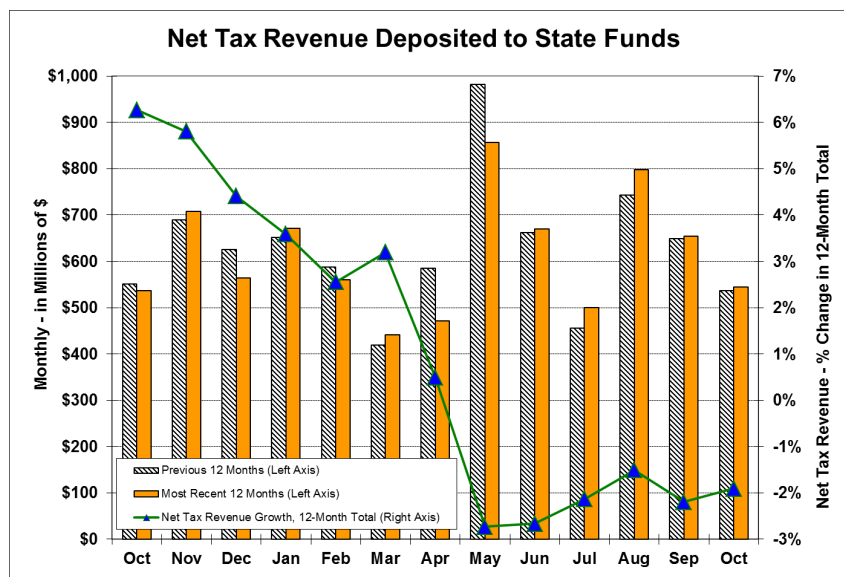
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: November 25, 2014

Twelve-month Total Net Tax Receipts Through October 31, 2014

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending October 2014 with comparisons to the previous 12 months. October 2013 to October 2014 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Overview of Current Situation

Annual State tax receipts, net of tax refunds, turned negative in May 2014 and year-over-year annual growth is now negative 1.9%. Although much of the reversal can be traced to individual income tax changes at the State and federal level, banking, corporate, gambling, cigarette/tobacco, and real estate transfer taxes are also negative over the most recent 12 months. Iowa's nonfarm employment growth stands at 1.5% (12-month average) and income tax withholding as well as sales/use tax deposits are showing good growth, indicating that the Iowa economy continues to expand.

Month of October 2014

October net tax receipts totaled \$544.2 million, an increase of \$7.9 million (1.5%) compared to October 2013. Corporate income tax and fuel tax posted good gains for the month, while sales/use tax and the franchise tax paid by banks both declined.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending October 2014, net revenue from all taxes deposited to State funds totaled \$7.437 billion, a decrease of \$144.8 million (- 1.9%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

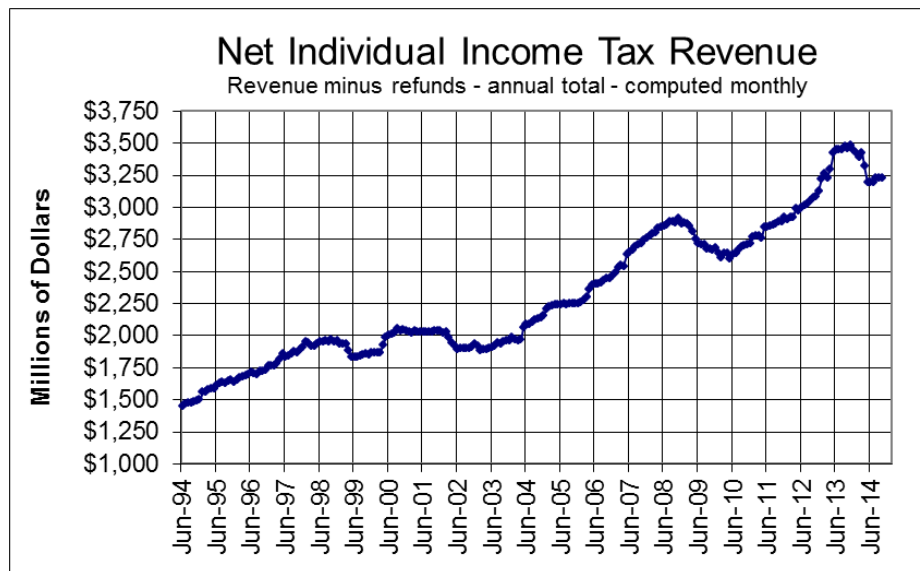
- Individual Income Tax (negative \$233.1 million, - 6.7%) – Annual individual income tax revenue growth peaked at \$451.4 million for the 12 months ending June 2013. Due to an increase in the Iowa Earned Income Tax Credit, the new Iowa Taxpayer Trust Fund Tax Credit, and the FY 2013 one-time boost to revenue that was the result of federal tax changes enacted January 1, 2013, the annual rate of income tax revenue growth declined significantly, falling below 0.0% by May 2014. Annual growth for individual income tax will likely remain negative until tax returns are processed in the Spring of 2015.
- Sales/Use Tax (positive \$116.9 million, 4.8%) – Although the months of September and October 2014 were down compared to last year, annual sales/use tax growth remains strong.
- Corporate Income Tax (negative \$18.7 million, - 4.3%) – Corporate income tax has shown month-to-month volatility and has trended modestly lower over the past two years.
- Bank Tax (negative \$12.5 million, - 30.6%) – The use of income tax credits may explain the recent weakness in bank (franchise) tax receipts. Banks utilize income tax credits and often those credits are purchased from other taxpayers with insufficient tax liability to use the credits themselves.
- Fuel Tax (positive \$18.4 million, 4.2%) – According to Department of Revenue monthly fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold increased 3.3% and taxable diesel sales increased 5.3%. The annual total for all taxable gasoline/ethanol/diesel fuel gallons sold in Iowa is currently 0.2% below the last peak (12 months ending July 2011).
- Gambling Tax (negative \$14.3 million, - 4.8%) – According to Racing and Gaming Commission statistics, 11 of Iowa's 18 casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12 months ending October 2014. The combined AGR change for the 18 facilities was negative 2.6% over the previous 12 months. Across all facilities, the AGR for the most recent 12 months totaled \$1.392 billion. The annual AGR total has declined over the past two years and is 5.2% below the November 2012 peak.
- Real Estate Transfer Tax (negative \$1.1 million, - 5.6%)
- Cigarette and Tobacco Tax (negative \$2.0 million, - 0.9%)

Tax Spotlight – Individual Income Tax

Iowa individual income is taxed under the authority of [Iowa Code chapter 422, Division II](#). The Iowa individual income tax is imposed on the Iowa income of individuals, estates, and trusts. Married filers with a combined net income of less than \$13,500 (\$9,000 for single taxpayers) are not generally required to pay Iowa income tax or submit an Iowa income tax return. This "filing threshold" does not apply to taxpayers claimed as dependents on another tax return. Iowa uses federal adjusted gross income as the initial point for income tax calculation.

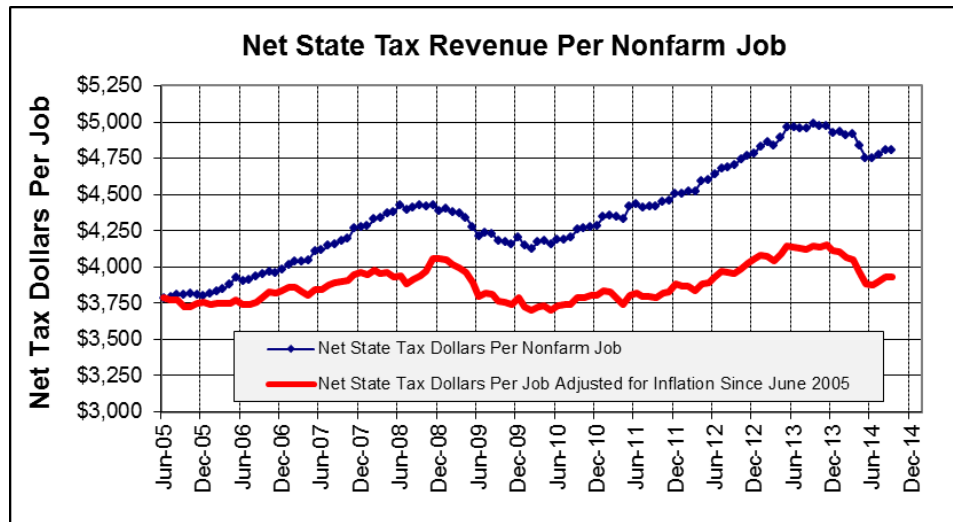
The Iowa individual income tax was first imposed in 1934 with a minimum rate of 1.0% and a maximum rate of 5.0% (HF 1 - Income, Corporation, and Sales Tax Act). The current tax rates were established in 1998 (HF 388 – Individual Income Tax Rates Act) and are applied to nine taxable income brackets ranging from an initial rate of 0.36% and a maximum rate of 8.98%. The income brackets are adjusted each year by the Department of Revenue based on an inflation calculation. For the 2013 tax year, the maximum marginal tax rate applies to taxable income above \$68,175. Iowa taxpayers deduct 100.0% of federal income tax paid when calculating taxable income.

There are a large number of tax credits that may provide a reduction in individual income tax. A list is located at https://tax.iowa.gov/sites/files/idr/Taxcredits14_0.pdf. Individual income tax returns are filed by the last day of the fourth month following the end of the tax year (April 30 for most taxpayers). In some cases, individuals may be required to remit quarterly estimated tax payments. Withholding tax is due semimonthly, monthly, or quarterly, depending on the total amount of income tax withheld by the employer. In general, individual income tax revenue is deposited in the State General Fund. Pursuant to [Iowa Code section 422.16A](#), an annual amount of withholding tax revenue is deposited in the Workforce Development Fund. The annual amount was increased from the existing \$4.0 million to \$6.0 million in [HF 2460](#) (FY 2015 Economic Development Appropriations Act). In certain instances, withholding tax may be paid to a community college (Iowa Code chapters [260E](#) and [260G](#)) or a [city](#) instead of the State General Fund.

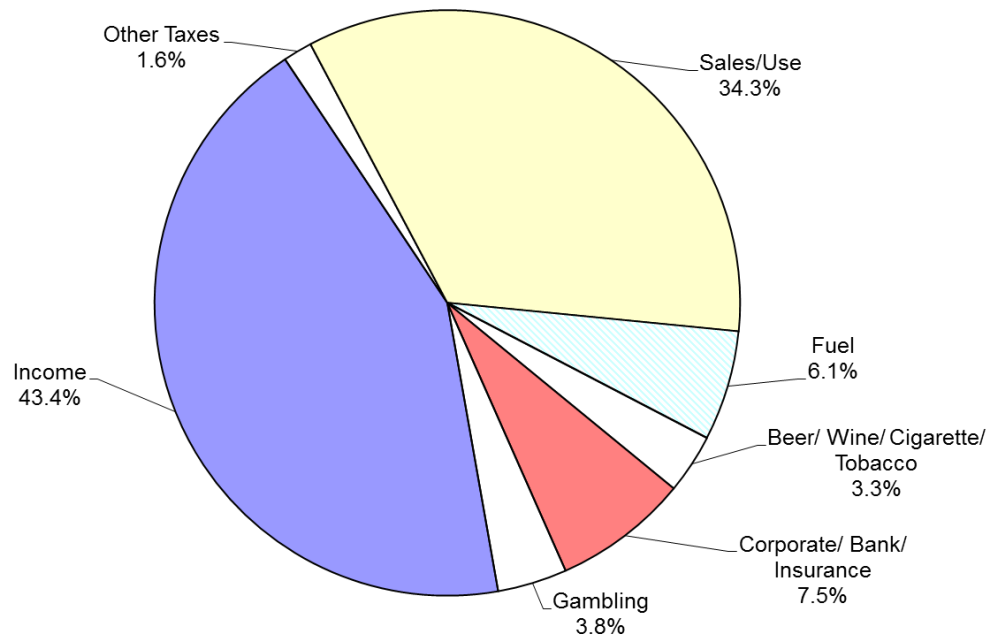


Tax Revenue and Employment

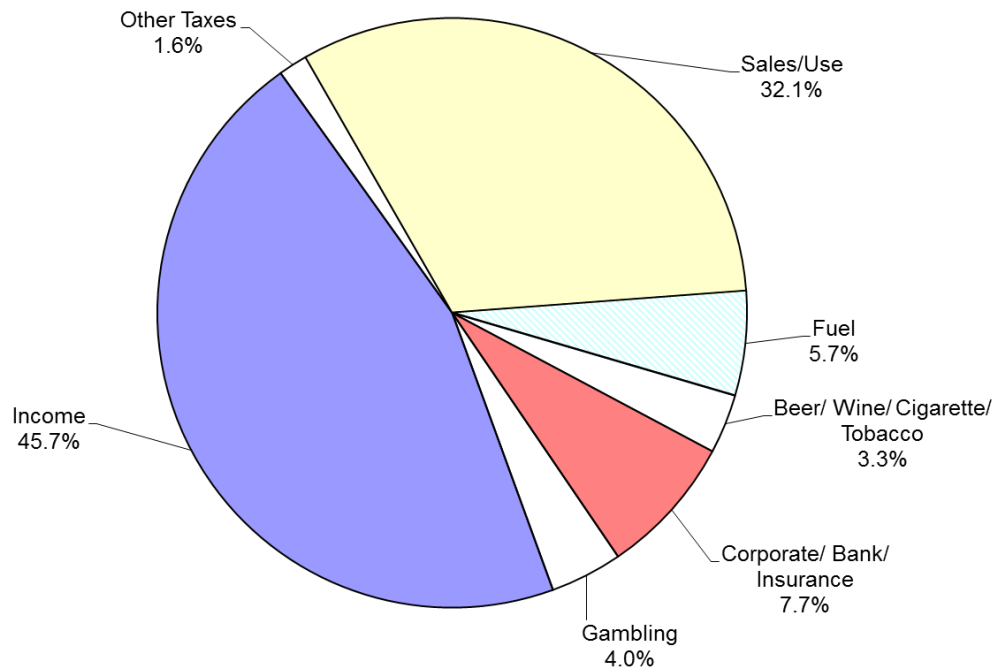
The average reading for Iowa nonfarm employment over the 12 months ending September 2014 is 1,545,500 and net State tax receipts over the same 12 months totaled \$7.429 billion, or \$4,807 per nonfarm job. This is \$1,022 higher than the per-job average for the 12 months ending June 2005. The blue line on the following chart depicts the annual tax revenue collected by the State per job, calculated monthly. The red line subtracts the impact of inflation since June 2005 from the blue line. The red line indicates that inflation adjusted tax revenue per job has increased \$143 since June 2005 and the remainder of the \$1,022 increase (\$879) represents the impact of inflation.



Net State Tax Revenue - Twelve Months Ending October 2014
Net Revenue = \$7.437 Billion
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending October 2013
Net Revenue = \$7.581 Billion
Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of October 2013	Month of October 2014	October \$ Change	October % Change
Banking	\$ 40.9	\$ 28.4	\$ - 12.5	-30.6%	\$ 3.1	\$ 1.5	\$ - 1.6	-51.6%
Beer & Wine	21.9	21.9	0.0	0.0%	1.7	1.7	0.0	0.0%
Cigarette & Tobacco	224.6	222.6	- 2.0	-0.9%	17.3	16.6	- 0.7	-4.0%
Corporate Income	436.5	417.8	- 18.7	-4.3%	40.4	47.3	6.9	17.1%
Fuel	433.8	452.2	18.4	4.2%	36.1	42.3	6.2	17.2%
Gambling	300.1	285.8	- 14.3	-4.8%	28.4	28.6	0.2	0.7%
Individual Income	3,462.4	3,229.3	- 233.1	-6.7%	229.8	230.5	0.7	0.3%
Inheritance	89.4	89.4	0.0	0.0%	9.6	9.4	- 0.2	-2.1%
Insurance	106.5	108.0	1.5	1.4%	0.0	0.1	0.1	--
Other Taxes	11.5	11.6	0.1	0.9%	2.8	2.9	0.1	3.6%
Real Estate Transfer	19.8	18.7	- 1.1	-5.6%	1.5	1.8	0.3	20.0%
Sales/Use	2,433.9	2,550.8	116.9	4.8%	165.6	161.5	- 4.1	-2.5%
Total Net Taxes	\$ 7,581.3	\$ 7,436.5	\$ - 144.8	-1.9%	\$ 536.3	\$ 544.2	\$ 7.9	1.5%
Gross Tax & Refunds								
Gross Tax	\$ 8,893.3	\$ 8,893.7	\$ 0.4	0.0%	\$ 612.8	\$ 633.2	\$ 20.4	3.3%
Tax Refunds	\$ - 1,312.1	\$ - 1,457.0	\$ - 144.9	11.0%	\$ - 76.5	\$ - 89.2	\$ - 12.7	16.6%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 6,424.6	\$ 6,102.7	\$ - 321.9	-5.0%	\$ 422.3	\$ 421.4	\$ - 0.9	-0.2%
Road Use Tax Fund	\$ 768.1	\$ 797.4	\$ 29.3	3.8%	\$ 64.5	\$ 73.5	\$ 9.0	14.0%
Non-GF Gambling	\$ 258.7	\$ 284.2	\$ 25.5	9.9%	\$ 28.3	\$ 28.4	\$ 0.1	0.4%
Other State Funds	\$ 129.9	\$ 252.4	\$ 122.5	94.3%	\$ 21.2	\$ 20.7	\$ - 0.5	-2.4%
Local Option Taxes *	\$ 893.5	\$ 902.2	\$ 8.7	1.0%	\$ 61.3	\$ 67.0	\$ 5.7	9.3%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

A percentage change displayed as "--" represents instances where the base year net revenue amount was zero or negative so no meaningful percentage change can be calculated.

Tax Categories Used in Table

Franchise (Bank) Tax: The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is included in this line also. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in an Iowa Economic Development Authority fund for wine promotion.

Cigarette & Tobacco Tax: Prior to July 1, 2011, all cigarette and tobacco products tax revenue was deposited to the State General Fund. Beginning FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes is deposited to the Health Care Trust Fund and the remainder is deposited to the State General Fund. Beginning FY 2014, all cigarette and tobacco tax revenue is deposited to the Health Care Trust Fund.

Corporate Income Tax: All corporate income tax is deposited in the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: Gambling tax is deposited in several State funds. For FY 2013, \$40.0 million was deposited to the General Fund and the remainder to other State funds. Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bond Debt and Subsidy Holdback Funds, the Technology Reinvestment Fund, and the Iowa Skilled Worker and Job Creation Fund.

Individual Income Tax: Most individual income tax revenue is deposited in the State General Fund. A total of \$6.0 million per year (\$5.75 million in FY 2015) is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited in the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited in the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The distribution of State portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% by FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

Sales/Use Tax: General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from State revenue as part of the net sales/use tax calculation. Beginning FY 2014, a portion of State sales/use tax revenue is deposited to a new Sales Tax Increment Fund and used for local flood mitigation projects.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database: The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.